SaskTel

Second Quarter Report

Contents:

Saskatchewan Telecommunications Holding Corporation

Second Quarter Report 2014

For the Period Ending June 30, 2014

Saskatchewan Telecommunications Holding Corporation (SaskTel) is a Saskatchewan Crown corporation. SaskTel is the leading full service communications provider in Saskatchewan, offering a wide range of communications products and services including competitive voice, data, Internet, entertainment, security monitoring, messaging, cellular, wireless data and directory services. In addition, SaskTel International offers software solutions and project consulting in countries around the world.

SaskTel and our wholly-owned subsidiaries have a workforce of approximately 4,000 full time equivalent employees.

Our vision is *"Be the best at connecting people to their world."* and our mission is *"To provide the best customer experience through our superior networks, exceptional service, advanced solutions and applications."*

Financial Highlights

Consolidated Net Income

	Three months ended June 30,			Six months ended June 30,		
Millions of dollars	**2014**	2013	% Change	**2014**	2013	% Change
Revenue	**$308.6**	$298.6	3.3	**$612.7**	$594.3	3.1
Other income	**0.8**	5.4	(85.2)	**1.6**	5.7	(71.9)
	309.4	304.0	1.8	**614.3**	600.0	2.4
Expenses	**282.0**	273.5	3.1	**554.1**	541.7	2.3
Results from operating activities	**27.4**	30.5	(10.2)	**60.2**	58.3	3.3
Net finance expense	**5.7**	11.2	(49.1)	**10.9**	19.7	(44.7)
Net income	**$21.7**	$19.3	12.4	**$49.3**	$38.6	27.7

Net income for the six months ended June 30, 2014 is $49.3 million, up $10.7 million (27.7%) from the same period in 2013. Revenues increased to $612.7 million, up $18.4 million (3.1%) from the same period in 2013 primarily due to increased wireless revenue from customer growth and increased data usage, and *maxTV*™ revenues resulting from increased customer accesses and increased revenue per customer.

Expenses for the six months ended June 30, 2014 increased to $554.1 million, up $12.4 million from the same period in 2013. This increase is primarily driven by increased salaries, wages and benefits partially offset by decreases in direct expenses, software licence and maintenance, and project related expenses. Depreciation and amortization has increased $9.5 million due to increased plant in service. Net finance expense was $10.9 million, down $8.8 million over the same period in 2013. This is driven by increases in the fair value of sinking funds versus decreases in the same period in 2013, partially offset by increased borrowing compared to the same period in 2013.

Management Discussion and Analysis

August 14, 2014

Forward-Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of SaskTel for the second quarter 2014. This discussion and analysis should be read in conjunction with SaskTel's audited financial statements for the year ended December 31, 2013. Some sections of this discussion include forward-looking statements about SaskTel's corporate direction and financial objectives. A statement is forward-looking when it uses information known today to make an assertion about the future. Since these forward-looking statements reflect expectations and intentions at the time of writing, actual results could differ materially from those anticipated if known or unknown risks and uncertainties impact the business, or if estimates or assumptions turn out to be inaccurate. As a result, SaskTel cannot guarantee that any of the predictions forecasted by forward-looking statements will occur. As well, forward-looking statements do not take into consideration the effect of transactions or non-recurring items announced or occurring subsequently. Therefore, SaskTel disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a full discussion of risk factors, please consult Management's Discussion & Analysis in SaskTel's 2013 annual report. These interim statements have been prepared in accordance with the International Financial Reporting Standard IAS 34, "Interim Financial Reporting". These interim statements have been approved by the SaskTel Board of Directors on August 14, 2014.

Results of Operations

Revenue

Millions of dollars	**2014**	2013	Change	%
Three months ended June 30,	**$308.6**	$298.6	$10.0	3.3
Year-to-date	**$612.7**	$594.3	$18.4	3.1

Revenues for the second quarter were $308.6 million, up $10.0 million from the same period in 2013. Year-to-date revenues were $612.7 million which represents an $18.4 million increase from 2013. This increase is primarily driven by; growth of the wireless customer base and increased usage of wireless data services, *maxTV* entertainment services due to increased number of customers and increased revenue per customer and Internet due to increased subscribers. These are partially offset by decreased local and enhanced service and long distance revenues as a result of customers moving from wireline to wireless services, commonly referred to as wireless displacement.

Other income

Millions of dollars	**2014**	2013	Change	%
Three months ended June 30,	**$0.8**	$5.4	$(4.6)	(85.2)
Year-to-date	**$1.6**	$5.7	$(4.1)	(71.9)

Other income for the second quarter of 2014 decreased to $0.8 million down $4.6 million from the same period in 2013. Year-to-date other income was $4.1 million lower than the same period in 2013 primarily due to reduced amortization of government funding compared to 2013.

Expenses

Millions of dollars	**2014**	2013	Change	%
Three months ended June 30,	**$282.0**	$273.5	$8.5	3.1
Year-to-date	**$554.1**	$541.7	$12.4	2.3

Expenses for the second quarter of 2014 increased to $282.0 million, up $8.5 million from the same period in 2013. Year-to-date expenses of $554.1 million were $12.4 million higher than the same period in 2013 primarily due to an increase of $7.7 million in net salaries, wages and benefits resulting from economic increases. Depreciation and amortization has increased $9.5 million largely due to increased plant in service, primarily 4G and LTE transmission assets. These are offset by decreased goods and services purchased, primarily direct expenses, software license and maintenance, materials and consulting services.

Net finance expense

Millions of dollars	**2014**	2013	Change	%
Three months ended June 30,	**$5.7**	$11.2	$(5.5)	(49.1)
Year-to-date	**$10.9**	$19.7	$(8.8)	(44.7)

Net finance expense for the second quarter of 2014 was $5.7 million, down $5.5 million over the same period in 2013. Year-to-date net finance expense decreased to $10.9 million from $19.7 million in 2013. This is driven by sinking fund fair value gains in 2014 compared to losses in the same period in 2013 and reduced net interest on the defined benefit liability due to a lower net liability, partially offset by increased interest on long-term debt as a result of additional debt issued in 2014, and reduced sinking fund earnings.

Liquidity and Capital Resources

Cash provided by operating activities

Millions of dollars	**2014**	2013	Change	%
Six months ended June 30,	**$107.6**	$108.9	$(1.3)	(1.2)

Cash provided by operating activities for the six months ended June 30, 2014 was down $1.3 million compared to the same period in 2013 primarily due to increased income from continuing operations partially offset by increased working capital requirements.

Cash used in investing activities

Millions of dollars	**2014**	2013	Change	%
Six months ended June 30,	**$112.7**	$128.3	$(15.6)	(12.2)

Cash used in investing activities in the six months ended June 30, 2014 decreased to $112.7 million, down $15.6 million from the same period in 2013, primarily due to planned spending reductions.

Capital Spending
Total capital expenditures for the first six months of 2014 were $118.3 million, down $20.7 million from the same period in 2013.

SaskTel's net spending on property, plant and equipment for the first six months of 2014 was $91.4 million, down $21.1 million from the same period in 2013 primarily due to planned spending reductions on Fibre to the Premises and the 4G cellular network. SaskTel's net spending on intangible assets was $26.9 million, up $0.4 million from the same period in 2013 primarily due to the purchase of 700 megahertz spectrum (MHz) in the 2014 Mobile Broadband Services – 700 MHz Band Auction partially offset by planned spending reductions on software.

Capital expenditures in 2014 will focus on further investment in growth initiatives while sustaining current capital assets. A large portion of the growth expenditures will see capital investment to increase bandwidth to our customers. Capital investments will include continued investment in Fibre to the Premises, which will significantly increase access speeds, as well as, the continued cellular network upgrade to 4G technology, continued cellular network upgrade to LTE technology, network growth and refurbishment, further investment in *maxTV*, and improved high speed internet quality.

Cash provided by (used in) financing activities

Millions of dollars	**2014**	2013	Change	%
Six months ended June 30,	**$(2.9)**	$31.6	$(34.5)	(109.2)

Cash used in financing activities in the six months ended June 30, 2014 was $2.9 million compared to $31.6 million provided by financing activities for the same period in 2013. This is primarily due to the repayment of notes payable partially offset by the issuance of long term debt.

Liquidity and capital resource ratios

Debt ratio

	June 30, 2014	December 31, 2013
Debt ratio	**51.0%**	49.1%

The debt ratio increased to 51.0%, up from 49.1% at December 31, 2013. The December 31, 2013 debt ratio has been restated for the impact of the change in accounting policy as discussed in note 2 of the financial statements and the revised calculation methodology which includes accumulated other comprehensive income as part of equity. Previously it was reported as 48.7%.

The overall level of net debt increased $42.0 million during the period due to increased long-term debt and reduced cash partially offset by reduced short-term borrowings and increased sinking funds.

Equity decreased by $15.3 million to the end of the second quarter of 2014 after recording comprehensive income of $15.0 million and dividends of $30.3 million.

The debt ratio is calculated as net debt divided by end of period capitalization. Net debt is defined as total debt, including long-term debt, notes payable and the current portion of long-term debt, less sinking funds, and cash and short-term investments. Capitalization includes net debt, equity advances, accumulated other comprehensive income (loss) and retained earnings at the period end.

2014 Outlook

The 2013 SaskTel Annual Report identified a consolidated net income target for 2014 of $59.2 million. At this time SaskTel believes that it will meet the established 2014 net income target.

Risk Assessment

The 2013 Annual Report discusses the risks and uncertainties in SaskTel's business environment focusing on both Strategic and Core Business Risks. The Strategic Risks include risks that may inhibit SaskTel from achieving its Strategic Plan including the following areas: customer, infrastructure, processes and systems, and workforce. The Core Business Risks focus on risks associated with the execution of SaskTel's business functions including the following areas: operational, financial, and compliance and legal.

SaskTel's basic risk profile remains unchanged as at June 30, 2014. Management continues to monitor individual risks as they change and evolve and employs the industry accepted risk management processes of identification, mitigation, transfer, assumption and control of key risks.

Condensed Consolidated Interim Statement of Income and Other Comprehensive Income

		(Unaudited)			
		Three months ended June 30,		Six months ended June 30,	
		2014	2013	**2014**	2013
Thousands of dollars	Note		(Restated - Note 2)		(Restated - Note 2)
Revenue	5	**$308,583**	$298,626	**$612,716**	$594,261
Other income	5	**806**	5,390	**1,559**	5,749
		309,389	304,016	**614,275**	600,010
Expenses					
Goods and services purchased		**143,917**	144,123	**273,910**	278,693
Salaries, wages and benefits		**93,446**	90,942	**191,934**	184,063
Depreciation	7	**40,398**	37,289	**81,069**	74,819
Amortization		**10,047**	7,097	**18,629**	15,392
Internal labour capitalized		**(5,807)**	(5,964)	**(11,449)**	(11,243)
		282,001	273,487	**554,093**	541,724
Results from operating activities		**27,388**	30,529	**60,182**	58,286
Net finance expense	6	**5,696**	11,199	**10,901**	19,723
Net income		**21,692**	19,330	**49,281**	38,563
Other comprehensive income (loss)					
Net actuarial gains (losses) on defined benefit pension plan	10	**(9,066)**	49,872	**(34,315)**	48,448
Total comprehensive income		**$12,626**	$69,202	**$14,966**	$87,011

All net income and total comprehensive income are attributable to Crown Investments Corporation of Saskatchewan (CIC).

See Accompanying Notes

Condensed Consolidated Interim Statement of Changes in Equity

	(Unaudited)			
Thousands of dollars	Equity advances	Accumulated other comprehensive income (loss)	Retained earnings (Restated - Note 2)	Total equity
Balance at January 1, 2014	**$250,000**	**$8,159**	**$489,056**	**$747,215**
Net income	**-**	**-**	**49,281**	**49,281**
Other comprehensive loss	**-**	**(34,315)**	**-**	**(34,315)**
Total comprehensive income for the period	**-**	**(34,315)**	**49,281**	**14,966**
Dividends	**-**	**-**	**30,330**	**30,330**
Balance at June 30, 2014	**$250,000**	**$(26,156)**	**$508,007**	**$731,851**
Balance at January 1, 2013	$250,000	$(182,427)	$479,380	$546,953
Net income	-	-	38,563	38,563
Other comprehensive income	-	48,448	-	48,448
Total comprehensive income for the period	-	48,448	38,563	87,011
Dividends	-	-	36,495	36,495
Balance at June 30, 2013	$250,000	$(133,979)	$481,448	$597,469

See Accompanying Notes

Condensed Consolidated Interim Statement of Financial Position

As at Thousands of dollars	Note	June 30, 2014	(Unaudited) December 31, 2013 (Restated - Note 2)	January 1, 2013 (Restated - Note 2)
Assets				
Current assets				
Cash		**$16,322**	$24,365	$3,466
Trade and other receivables	13a	**129,911**	116,526	110,593
Inventories	13a	**14,180**	16,450	8,570
Prepaid expenses	13a	**31,750**	23,817	25,961
		192,163	181,158	148,590
Property, plant and equipment	7	**1,457,858**	1,451,465	1,335,155
Intangible assets	8	**268,413**	260,201	210,520
Sinking funds		**101,791**	90,677	86,695
Other assets		**8,617**	10,206	12,760
		$2,028,842	$1,993,707	$1,793,720
Liabilities and Province's equity				
Current liabilities				
Trade and other payables	13a	**$144,050**	$168,738	$158,874
Dividend payable		**17,007**	30,402	22,881
Notes payable		**103,000**	253,342	85,600
Other liabilities	13a	**73,555**	65,609	65,906
		337,612	518,091	333,261
Deferred revenue		**7,470**	7,860	8,067
Deferred income – government funding		**43,806**	43,800	47,985
Long-term debt	9	**776,598**	581,172	580,881
Employee benefit obligations		**131,505**	95,569	276,573
		1,296,991	1,246,492	1,246,767
Commitments	12			
Province of Saskatchewan's equity				
Equity advance		**250,000**	250,000	250,000
Accumulated other comprehensive income (loss)		**(26,156)**	8,159	(182,427)
Retained earnings		**508,007**	489,056	479,380
		731,851	747,215	546,953
		$2,028,842	$1,993,707	$1,793,720

See Accompanying Notes

Condensed Consolidated Interim Statement of Cash Flows

Thousands of dollars	Note	(Unaudited) Six months ended June 30, 2014	2013 (Restated - Note 2)
Operating activities			
Net income		**$49,281**	$38,563
Adjustments to reconcile net income to cash provided by operations			
Depreciation and amortization		**99,698**	90,211
Net financing expense	6	**10,901**	19,723
Interest paid		**(19,181)**	(16,698)
Interest received		**856**	926
Amortization of government funding		**(2,524)**	(6,845)
Other		**4,738**	4,776
Net change in non-cash working capital	13b	**(36,214)**	(21,793)
		107,555	108,863
Investing activities			
Property, plant and equipment expenditures		**(89,078)**	(110,161)
Intangible assets expenditures		**(26,131)**	(26,629)
Government funding		**2,538**	8,509
		(112,671)	(128,281)
Financing activities			
Proceeds from long-term debt		**195,240**	-
Net proceeds (repayment) of notes payable		**(150,342)**	78,200
Sinking fund installments		**(4,100)**	(2,600)
Dividends paid		**(43,725)**	(43,981)
		(2,927)	31,619
Increase (decrease) in cash		**(8,043)**	12,201
Cash, beginning of period		**24,365**	3,466
Cash, end of period		**$16,322**	$15,667

See Accompanying Notes

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
As at and for the six months ended June 30, 2014

Note 1 – Basis of preparation

The unaudited condensed consolidated interim financial statements as at and for the six months ended June 30, 2014 should be read in conjunction with the Saskatchewan Telecommunications Holding Corporation's (the Corporation) December 31, 2013 audited consolidated financial statements. The condensed consolidated interim financial statements of the Corporation have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

The condensed consolidated interim financial statements as at and for the six month period ended June 30, 2014 were approved by the Board of Directors on August 14, 2014.

a) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following:

- Fair value through profit and loss financial instruments are measured at fair value, and
- The employee benefit obligations are recognized as the fair value of the plan assets less the present value of the accrued benefit obligation.

b) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

c) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with International Financial Reporting Standards (IFRS) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements includes the following:

- Use of the straight-line basis of depreciation and amortization,
- Classification of intangible assets – indefinite life, and
- Accounting for government funding.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year includes the following:

- Useful lives and depreciation rates for property plant and equipment,
- Useful lives and amortization rates for intangible assets, and
- The measurement of employee benefit obligations.

Note 2 – Change in accounting policy and adoption of other standards

a. Directory revenue recognition

Effective January 1, 2014, the Corporation changed its revenue recognition policy related to advertising and directory services. Revenues are now recognized over the term of the contract whereas previously revenue was recognized when directories were issued. The change was made as the new policy more reliably reports and better reflects the marketing strategy and resulting revenues from these services.

The impacts of the change in accounting policy are as follows:

Impact on net income

For the three months ended June 30, 2013

Thousands of dollars	As previously reported	Adjustment	As restated
Revenue	$292,594	$6,032	$298,626
Goods and services purchased	143,582	541	144,123
Salaries, wages and benefits	90,776	166	90,942
Net income	14,005	5,325	19,330

For the six months ended June 30, 2013

Thousands of dollars	As previously reported	Adjustment	As restated
Revenue	$582,499	$11,762	$594,261
Goods and services purchased	277,620	1,073	278,693
Salaries, wages and benefits	183,751	312	184,063
Net income	28,186	10,377	38,563

For the year ended December 31, 2013

Thousands of dollars	As previously reported	Adjustment	As restated
Revenue	$1,205,057	$687	$1,205,744
Goods and services purchased	569,828	84	569,912
Salaries, wages and benefits	361,539	(63)	361,476
Net income	90,105	666	90,771

Note 2 – Change in accounting policy and adoption of other standards, continued

Impact on the statement of financial position

As at January 1, 2013

Thousands of dollars	As previously reported	Adjustment	As restated
Trade and other receivables	$129,776	$(19,183)	$110,593
Prepaid expenses	23,101	2,860	25,961
Other liabilities	63,362	2,544	65,906
Retained earnings	498,247	(18,867)	479,380

As at December 31, 2013

Thousands of dollars	As previously reported	Adjustment	As restated
Trade and other receivables	$135,264	$(18,738)	$116,526
Prepaid expenses	20,978	2,839	23,817
Other liabilities	63,307	2,302	65,609
Retained earnings	507,257	(18,201)	489,056

b. Other new standards

The following new standards, and amendments to standards, effective for annual periods beginning on or after January 1, 2014, have been applied in preparing these condensed consolidated interim financial statements:

- IFRIC 21 Levies
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements
- Amendments to IAS 32 Financial Instruments: Presentation
- Amendments to IAS 36 Impairment of Assets
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement

The adoption of these standards had no material impact on the condensed consolidated interim financial statements.

Note 3 – Summary of significant accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with IFRS. The accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements conform with those used in the Corporation's most recent annual consolidated financial statements except as stated in Note 2 – Change in accounting policy and adoption of other standards, and have been applied consistently to all periods presented in these unaudited condensed consolidated interim financial statements.

The accounting policies have been applied consistently by the Corporation and its subsidiaries.

New standards and interpretations not yet adopted
Certain new standards, interpretations and amendments to existing standards were issued by the International Accounting Standards Board or International Financial Reporting Interpretations Committee that

Note 3 – Summary of significant accounting policies, continued

are mandatory for annual accounting periods beginning after December 31, 2014. The Corporation has assessed that there will not be a significant impact of these pronouncements on its results and financial position.

These include:

- IFRS 9 Financial Instruments was issued in 2009 and amended in 2010. This standard was further amended in November 2013. There is no implementation date at this time.
- IFRS 15 Revenue from Contracts with Customers was issued May 28, 2014. This standard outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers. The standard is effective for reporting periods beginning on or after January 1, 2017. The Corporation is currently assessing the impact of the standard.

Note 4 – Financial risk management

The Corporation is exposed to fluctuations in foreign exchange rates and interest rates, as well as credit and liquidity risk. The Corporation utilizes a number of financial instruments to manage these exposures. The Corporation mitigates the risk associated with these financial instruments through Board-approved policies, limits on use and amount of exposure, internal monitoring, and compliance reporting to senior management and the Board.

Fair values are approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

As at		**June 30, 2014**		December 31, 2013	
Thousands of dollars	Classification (a)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets					
Investments - sinking funds	FVTPL	**$101,791**	**$101,791**	$90,677	$90,677
Financial liabilities					
Long-term debt	OL	**$776,598**	**$904,245**	$581,172	$665,057

(a) Classification details are:
FVTPL - fair value through profit or loss   OL - other liabilities

a) Fair value hierarchy

When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of cash, trade and other receivables, trade and other payables and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

For financial instruments listed below, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. Accordingly, the determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are

Note 4 – Financial risk management, continued

categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 – Where quoted prices are readily available from an active market.
Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.
Level 3 – Where valuation is based on unobservable inputs.

There were no items measured at fair value using level 3 during 2013 or 2014 and no items transferred between levels in 2013 or 2014.

As at	**June 30, 2014**			December 31, 2013		
Thousands of dollars	**Level 1**	**Level 2**	**Total**	Level 1	Level 2	Total
Sinking funds	**$ -**	**$101,791**	**$101,791**	$ -	$90,677	$90,677
Long-term debt	**$ -**	**$904,245**	**$904,245**	$ -	$665,057	$665,057

Investments carried at fair value through profit or loss
Investments carried at fair value through profit and loss and categorized as level 2 in the hierarchy include sinking funds.

The fair value of sinking funds is determined by the Saskatchewan Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect secondary pricing for these securities.

Long-term debt
The fair value of long-term debt is determined by the present value of future cash flows, discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

Note 5 – Revenue and other income

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Thousands of dollars		(Restated - Note 2)		(Restated - Note 2)
Services revenue				
Wireless	**$120,636**	$115,052	**$240,364**	$229,505
maxTV, Internet and data services	**76,202**	70,873	**151,548**	140,480
Local and enhanced service	**61,067**	63,545	**122,011**	127,305
Long distance services	**13,607**	14,668	**27,146**	29,461
Equipment	**14,633**	13,519	**26,724**	25,174
Advertising and directory services	**10,677**	10,926	**21,354**	21,957
Security monitoring services	**5,780**	5,080	**11,586**	10,112
Software and consulting services	**1,320**	1,791	**3,398**	3,605
Other services	**4,661**	3,172	**8,585**	6,662
	308,583	298,626	**612,716**	594,261
Other income				
Net loss on retirement or disposal of property, plant and equipment	**(614)**	(156)	**(1,322)**	(926)
Amortization of government funding	**1,257**	5,615	**2,523**	6,845
Other	**163**	(69)	**358**	(170)
	806	5,390	**1,559**	5,749
	$309,389	$304,016	**$614,275**	$600,010

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
As at and for the six months ended June 30, 2014

Note 6 – Net finance expense

Thousands of dollars	Three months ended June 30, 2014	2013	Six months ended June 30, 2014	2013
Recognized in consolidated net income				
Interest expense on financial liabilities measured at amortized cost	**$10,064**	$8,433	**$19,963**	$16,852
Interest capitalized	**(1,540)**	(2,272)	**(3,263)**	(3,861)
Net interest expense	**8,524**	6,161	**16,700**	12,991
Net change in fair value of financial assets at fair value through profit or loss	**-**	4,373	**-**	5,534
Net interest on defined benefit liability	**1,036**	2,468	**2,072**	4,937
Finance expense	**9,560**	13,002	**18,772**	23,462
Net change in fair value of financial assets at fair value through profit or loss	**(2,148)**	-	**(4,852)**	-
Interest income on unimpaired financial assets at fair value through profit or loss	**(1,296)**	(1,355)	**(2,162)**	(2,813)
Interest income on loans and receivables	**(420)**	(448)	**(857)**	(926)
Finance income	**(3,864)**	(1,803)	**(7,871)**	(3,739)
Net finance expense	**$5,696**	$11,199	**$10,901**	$19,723
Interest capitalization rate			**4.59%**	4.78%

Note 7 – Property, plant and equipment

Thousands of dollars	Plant and equipment	Buildings and improvements	Office furniture and equipment	Plant under construction	Land	Total
Cost						
Balance at January 1, 2014	**$3,014,983**	**$442,137**	**$133,872**	**$148,046**	**$35,725**	**$3,774,763**
Additions	**9,332**	**-**	**3,307**	**78,769**	**32**	**91,440**
Transfers	**78,111**	**7,302**	**7,836**	**(93,502)**	**253**	**-**
Retirements and disposals	**(28,661)**	**(337)**	**-**	**-**	**-**	**(28,998)**
Balance at June 30, 2014	**$3,073,765**	**$449,102**	**$145,015**	**$133,313**	**$36,010**	**$3,837,205**
Balance at January 1, 2013	$2,814,117	$411,044	$119,612	$143,554	$34,254	$3,522,581
Additions	38,391	1,474	17,899	220,417	-	278,181
Transfers	183,513	29,724	827	(215,925)	1,861	-
Retirements and disposals	(21,038)	(105)	(4,466)	-	(390)	(25,999)
Balance at December 31, 2013	$3,014,983	$442,137	$133,872	$148,046	$35,725	$3,774,763
Accumulated depreciation						
Balance at January 1, 2014	**$2,118,628**	**$125,084**	**$79,586**	**$ -**	**$ -**	**$2,323,298**
Depreciation for the period	**65,988**	**5,125**	**9,956**	**-**	**-**	**81,069**
Retirements, disposals and adjustments	**(24,714)**	**(209)**	**(97)**	**-**	**-**	**(25,020)**
Balance at June 30, 2014	**$2,159,902**	**$130,000**	**$89,445**	**$ -**	**$ -**	**$2,379,347**
Balance at January 1, 2013	$2,009,398	$115,465	$62,563	$ -	$ -	$2,187,426
Depreciation for the year	127,087	9,621	18,761	-	-	155,469
Retirements, disposals and adjustments	(17,857)	(2)	(1,738)	-	-	(19,597)
Balance at December 31, 2013	$2,118,628	$125,084	$79,586	$ -	$ -	$2,323,298
Carrying amounts						
At January 1, 2014	**$896,355**	**$317,053**	**$54,286**	**$148,046**	**$35,725**	**$1,451,465**
At June 30, 2014	**$913,863**	**$319,102**	**$55,570**	**$133,313**	**$36,010**	**$1,457,858**
At January 1, 2013	$804,719	$295,579	$57,049	$143,554	$34,254	$1,335,155
At December 31, 2013	$896,355	$317,053	$54,286	$148,046	$35,725	$1,451,465

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
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Note 8 – Intangible assets

Thousands of dollars	Goodwill	Software	Customer accounts	Spectrum licenses	Under development	Total
Cost						
Balance at January 1, 2014	**$5,976**	**$189,508**	**$81,024**	**$65,981**	**$76,795**	**$419,284**
Acquisitions	-	**4,033**	**1,464**	**7,557**	**10,964**	**24,018**
Acquisitions – internally developed	-	**267**	-	-	**2,617**	**2,884**
Transfers	-	**49,366**	-	-	**(49,366)**	-
Retirements and disposals	-	**(4,325)**	-	-	-	**(4,325)**
Balance at June 30, 2014	**$5,976**	**$238,849**	**$82,488**	**$73,538**	**$41,010**	**$441,861**
Balance at January 1, 2013	$5,976	$170,996	$67,539	$65,981	$32,980	$343,472
Acquisitions	-	11,813	13,485	-	24,357	49,655
Acquisitions – internally developed	-	701	-	-	27,288	27,989
Transfers	-	7,830	-	-	(7,830)	-
Retirements and disposals	-	(1,832)	-	-	-	(1,832)
Balance at December 31, 2013	$5,976	$189,508	$81,024	$65,981	$76,795	$419,284
Accumulated amortization						
Balance at January 1, 2014	**$ -**	**$111,633**	**$47,450**	**$ -**	**$ -**	**$159,083**
Amortization for the period	-	**16,031**	**2,604**	-	-	**18,635**
Retirements and disposals	-	**(4,270)**	-	-	-	**(4,270)**
Balance at June 30, 2014	**$ -**	**$123,394**	**$50,054**	**$ -**	**$ -**	**$173,448**
Balance at January 1, 2013	$ -	$89,801	$43,151	$ -	$ -	$132,952
Amortization for the year	-	23,253	4,299	-	-	27,552
Retirements and disposals	-	(1,421)	-	-	-	(1,421)
Balance at December 31, 2013	$ -	$111,633	$47,450	$ -	$ -	$159,083
Carrying amounts						
At January 1, 2014	**$5,976**	**$77,875**	**$33,574**	**$65,981**	**$76,795**	**$260,201**
At June 30, 2014	**$5,976**	**$115,455**	**$32,434**	**$73,538**	**$41,010**	**$268,413**
At January 1, 2013	$5,976	$81,195	$24,388	$65,981	$32,980	$210,520
At December 31, 2013	$5,976	$77,875	$33,574	$65,981	$76,795	$260,201

Note 9 – Long term debt

On January 14, 2014 the Corporation, through its subsidiary Saskatchewan Telecommunications, issued $150.0 million of long term debt through the Province of Saskatchewan's General Revenue Fund maturing on June 2, 2045 at a rate of 3.90%. The debt was issued at a discount of $4.8 million yielding an effective interest rate of 4.09%.

On May 13, 2014 the Corporation, through its subsidiary Saskatchewan Telecommunications, issued $50.0 million of long term debt through the Province of Saskatchewan's General Revenue Fund maturing on June 3, 2024 at a rate of 3.20%. The debt was issued at a premium of $0.4 million yielding an effective interest rate of 3.11%.

Note 10 – Employee benefit obligations

Other comprehensive loss results from changes to actuarial assumptions related to the assets and liabilities of the Corporation's employee benefit plans, specifically the discount rate used to calculate the liabilities of the employee defined benefit plan and changes in the fair value of the employee benefit defined plan assets resulting from differences in the actual versus estimated return on these assets. The discount rates used are as follows:

	2014	2013
March 31	**4.20%**	3.80%
June 30	**4.00%**	4.00%
September 30	**n/a**	4.50%
December 31	**n/a**	4.60%

In addition to the other comprehensive loss impact detailed below, these assumption changes, combined with pension income and benefits paid for the period, have resulted in a net increase in the employee benefit obligations for the period.

	Six months ended June 30,	
Thousands of dollars	**2014**	2013
Actuarial gain (loss) on accrued benefit obligation	**$(71,079)**	$26,667
Actuarial gain on plan assets	**36,764**	21,781
Actuarial gain (loss) on employee benefit plans	**$(34,315)**	$48,448

Note 11 – Capital management

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances are an equity investment in the Corporation by CIC.

Due to its ownership structure, the Corporation has no access to capital markets for internal equity. Equity advances in the Corporation are determined by the shareholder on an annual basis. Dividends to CIC are determined through the Saskatchewan Provincial budget process on an annual basis.

The Corporation closely monitors its debt level utilizing the debt ratio as a primary indicator of financial health. The debt ratio measures the amount of debt in a corporation's capital structure. The Corporation uses this measure in assessing the extent of financial leverage and in turn, its financial flexibility. Too high a ratio relative to target indicates an excessive debt burden that may impair the Corporation's ability to withstand downturns in revenues and still meet fixed payment obligations. The ratio is calculated as net debt divided by capitalization at the end of the period.

Note 11 – Capital management, continued

The Corporation reviews the debt ratio targets of all its subsidiaries on an annual basis to ensure consistency with industry standards. This review includes subsidiary corporations' plans for capital spending. The target debt ratios for subsidiaries are approved by their Boards. The Corporation uses targeted debt ratios to compile a weighted average debt to equity ratio for the consolidated entity. The budgeted ratio for 2014 is 56%.

The Corporation raises most of its capital requirements through internal operating activities and long-term debt through the Saskatchewan Ministry of Finance. This type of borrowing allows the Corporation to take advantage of the Province of Saskatchewan's strong credit rating and receive financing at attractive interest rates.

The Corporation made no changes to its approach to capital management during the period.

The Corporation is not subject to any externally imposed capital requirements.

The debt ratio is as follows:

As at	**June 30, 2014**	December 31, 2013
Thousands of dollars		(Restated - Note 2)
Total debt (a)	**$879,598**	$834,514
Less: Sinking funds	**101,791**	90,677
Cash	**16,322**	24,365
Net debt	**761,485**	719,472
Equity (b)	**731,851**	747,215
Capitalization	**$1,493,336**	$1,466,687
Debt ratio	**51.0%**	49.1%

a) Total debt includes long-term debt, long-term debt due within one year and notes payable.
b) Equity includes equity advances, accumulated other comprehensive income (loss) and retained earnings at the end of the period.

Note 12 – Commitments

At June 30, 2014, the Corporation has committed to spend $12.6 million (December 31, 2013 - $15.2 million) on property, plant, equipment and $5.9 million (December 31, 2013 - $11.7 million) on intangible assets and $304.1 million (December 31, 2013 - $358.5 million) related to future operations.

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
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Note 13 – Additional financial information

a) Statement of Financial Position

As at Thousands of dollars	**June 30, 2014**	December 31, 2013 (Restated - Note 2)
Trade and other receivables		
Customer accounts receivable	**$89,472**	$80,231
Accrued receivables - customer	**4,225**	4,301
Allowance for doubtful accounts	**(1,796)**	(2,082)
	91,901	82,450
High cost serving area subsidy	**3,194**	1,969
Other	**34,816**	32,107
	$129,911	$116,526
Inventories		
Inventories for resale	**$10,086**	$11,827
Materials and supplies	**4,094**	4,623
	$14,180	$16,450
Prepaid expenses		
Prepaid expenses	**$24,947**	$16,552
Deferred service connection charges	**4,205**	4,303
Short-term prepaid customer incentives	**2,598**	2,962
	$31,750	$23,817
Trade and other payables		
Trade accounts payable and accrued liabilities	**$97,873**	$116,485
Payroll and other employee-related liabilities	**34,807**	35,492
Other	**11,370**	16,761
	$144,050	$168,738
Other liabilities		
Advance billings	**$56,720**	$48,610
Deferred customer activation and connection fees	**5,165**	5,315
Current portion of deferred income - government funding	**4,992**	4,984
Customer deposits	**6,678**	6,700
	$73,555	$65,609

Note 13 – Additional financial information, continued

b) Supplementary cash flow information

	Six months ended June 30,	
	2014	2013
Thousands of dollars		(Restated - Note 2)
Net change in non-cash working capital balances related to operations		
Trade and other receivables	**$(13,839)**	$11,551
Inventories	**2,271**	(6,874)
Prepaid expenses	**(7,933)**	(4,749)
Trade and other payables	**(25,284)**	(24,473)
Other liabilities	**7,937**	1,714
Deferred revenue	**(391)**	(444)
Long-term prepaid customer incentives	**1,159**	1,192
Other assets	**(333)**	-
Deferred expenses	**199**	290
	$(36,214)	$(21,793)